

2011 Annual Financial Report

The University Credit Society Limited
ABN 90 087 651 901. AFSLN 244 168



Chairman's Report

On behalf of the Directors, I am pleased to present the 47th Annual Financial Report of The University Credit Society Ltd, for the year 2010/2011.

Being financially sound continues to be the most important objective for Unicredit. It is therefore gratifying to report that The University Credit Society has recorded yet another year of solid financial results, with many positive achievements, as can be seen from the following performance highlights:

- Consolidated operating profit before tax for the year ended 30th June 2011 was \$967,305. This result enabled the Credit Society to further strengthen its reserves to \$13.8m.
- Capital adequacy at 30 June was 18.26%, well above the prudential requirement.
- The Board's policy of conservatively managing liquid assets was reflected in liquidity of 12.95%, being in excess of the prudential requirement.
- Member deposits during the year increased by 11.63% to \$144.8m and total assets by 11.40% to \$163.5m. Loans to members grew by 4.05% to \$100.8m.
- Tertiary Travel, Unicredit's fully-owned subsidiary company, had another very successful year, with sales increasing to \$11.3m.

As a mutual organisation, our success cannot be measured purely in terms of profit and growth. It is important to us to continue to maintain our personal, face-to-face approach with our members. I am pleased to regularly hear feedback from members on their high levels of satisfaction with the welcoming environment within our Lending Centre and all the branches, along with the warmth and helpfulness of our staff.

Unicredit's mutual ownership structure ensures that everything we do benefits our members. Unicredit's members continue to be at the centre of everything we do. Unlike banks, our profits are reinvested into offering members a full range of products, with very personalised service. I would again strongly encourage you to look carefully at the details of the products and pricing offered by Unicredit before responding to the advertising of our competitors or recommendations from mortgage brokers. If you do have loans or deposits with other organisations I'd encourage you to take the time to sit down with a Unicredit lending consultant or branch member services officer to discuss how Unicredit can benefit you.

In closing, I again extend my thanks to the staff of Unicredit and Tertiary Travel for their efforts during the year, which is much appreciated. To Frank Lincoln, Deputy Chair, and to all the other Directors, my thanks for your contributions to yet another successful financial year. Finally my special thanks to our valued members, without whom Unicredit would not exist. We look forward to your continued support of your credit society.



Bill Ford

Chairman, Board of Directors

The University Credit Society Ltd.

Directors' Report

The directors of The University Credit Society Limited present their report on the consolidated financial statements of the Society and its controlled entities (the Consolidated Group) for the financial year ended 30 June 2011.

DIRECTORS

The names and particulars of the directors of the Society in office at any time during or since the end of the year are: -

Name	Qualifications, experience and any special responsibilities
W J Ford	BA LLB (Hons), DipEd W.Aust., DipLib (NSW) Barrister and Solicitor of Supreme Court of Western Australia Former Dean of the Law School, University of WA (2001 – 2011) Chairman, Council of Australian Law Deans (2007 – 2011) Committee Member (UWA Branch) NTEU & Secretary UWA Academic Staff Association Former National Vice-President (Academic) NTEU Chairman, University Credit Society Limited Director, Tertiary Travel Service Pty Ltd Chairman, Remuneration & Conditions Committee
P J Grant	BA, B App Sc, B Econ Property Manager & Company Director Former President, National Union of Students WA Branch Former Chairman, Edith Cowan Student Guild Director, Tertiary Travel Service Pty Ltd
M L Griffith	BCom W.Aust., DipAccounting FCPA Retired Executive Director (Finance & Resources), University of WA Chairman, Uni Mutual Ltd, Uni Mutual Insurance (NZ) Limited, Uni Mutual (Isle of Man) Ltd, Uni Mutual Insurance Company Ltd (Isle of Man) & ANZU Mutual Association Ltd (Aust) Chairman, Tertiary Travel Service Pty Ltd
A M Hall	GAICD, BSc (Psych), Grad Cert Business (UWA) Advanced Diploma in Leadership (UWA) Manager, Corporate Development Strategy, Main Roads of WA Former Director, StateWest Credit Society Former Vice-President, WA Branch of Australian Institute of Credit Union Directors Chair, Loan Review Committee Director, Tertiary Travel Service Pty Ltd
B A Handley	PhD (UWA), Master of Business (Curtin), Grad Dip Business & Administration (Curtin), MAICD, AMAMI Senior Lecturer, Curtin University Member, Curtin Uni School of Business Strategic Review Board Former Board Member, Diabetes WA & Member of its Finance & Audit Committee Former Board Member, WA Deaf Society & Member of its Finance & Audit and Strategic Marketing Committees Former Marketing Manager, CSA Credit Union Ltd

M L T Johns	Retired Senior Technician, Department of Psychology, UWA Deputy Chairman, Tertiary Travel Service Pty Ltd
F J Lincoln	BSc PhD, FRACI Honorary Research Fellow, Chemistry, School of Biomedical, Biomolecular & Chemical Sciences, University of WA Deputy Chair, University Credit Society Limited Chairman, Audit & Risk Management Committee
I D Watson (Resigned 24/11/10)	BA (Hons) Accounting & Finance, MSc Information Management PhD Finance (University of Ulster) Dean, University of Queensland Business School Former President, NTEU (UWA Branch) & UWA Academic Staff Association
V R Wilmot	BBus (Acc) Dist, GDipAppFin, CA, F Fin Associate Director, Treasury & Investments, University of WA Board Member, WorkCover WA Chair, Audit Committee, WorkCover WA

Each director holds one share in the Society.

M L Griffith holds one share in Tertiary Travel Service Pty Ltd in trust for the Society.

The name of the Company Secretary in office at the end of the year is:

M D Blackburn	BSc (Econ) Hons, MBA, CPA, FCMA, FCIS Fellow of Chartered Secretaries Australia, Company Secretary since July 1998. Credit Society CEO since 1998.
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The Society keeps a register of information concerning the directors of the Society, including details of each director's interest in any securities issued by the Society. The Society has no such securities on issue. The register is available for inspection: -

- by any member, without fee; and
- by any other person, on payment of the amount (if any) prescribed by the rules of the Society.

PRINCIPAL ACTIVITIES

The principal activities of the entities in the Consolidated Group during the year were: -

- The University Credit Society Limited Credit Society
- Tertiary Travel Service Pty Ltd Travel Agent

MEETINGS OF DIRECTORS

The number of meetings of the Society's Board of Directors and of the Society's Audit & Risk Management, Loan Review and Remuneration & Conditions Committees held during the year ended 30 June 2011 and the number of meetings attended by each director were:

	Board	Audit & Risk	Loan Review	Remuneration & Conditions
Numbers of meetings held:	11	3	4	2
Numbers of meetings attended by:				
W J Ford	9	*	1@	2
P Grant	7	1	2	-
M L Griffith	9	3	2@	1
A M Hall	11	*	4	2
B A Handley	11	2@	*	1
M L T Johns	9	*	3	1
F J Lincoln	11	3	4	2
I D Watson	- #	- &	- &	- &
V R Wilmot	9	3	*	1

* Not a member of the relevant Committee

Member of Board for only five meetings

@ Member of Committee for only two meetings

& Member of Committee for only one meeting

A number of Directors who are not members of the Remuneration & Conditions Committee attended various Committee meetings during the year.

The Board also established two working parties, one on strategic issues and the other on remuneration and KPI's. These working parties met several times during the 2010/2011 financial year.

CONSOLIDATED RESULTS

The profit after income tax of the Consolidated Group for the year was \$967,305.

DIVIDENDS

The directors do not recommend that a dividend be paid. No dividends have been paid during the year.

REVIEW OF OPERATIONS

The Consolidated Group continued to operate satisfactorily during the year with the result that:

- Members' funds increased from \$12,814,375 to \$13,802,791 (7.71%)
- Total assets increased from \$146,810,842 to \$163,542,956 (11.40%)
- Members' deposits increased from \$129,731,444 to \$144,824,013 (11.63%)
- Loans to members increased from \$96,848,447 to \$100,772,206 (4.05%)

INDEMNIFICATION AND INSURANCE

During the year, a premium was paid in respect of a contract insuring directors and officers of the Society and related bodies corporate against liability.

The officers of the Society and related bodies corporate covered by the insurance contract include the directors, executive officers, secretary and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of the non-audit services provided means that auditor independence was not compromised.

The following fees for non-audit services were paid to Grant Thornton during the year ended 30 June 2011: Taxation services \$3,543 (2010: \$3,850).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect -

- (i) the operations of the Consolidated Group; or
- (ii) the results of those operations; or
- (iii) the state of affairs of the Consolidated Group;

in financial years subsequent to 30 June 2011.

LIKELY DEVELOPMENTS IN THE OPERATIONS OF THE CONSOLIDATED GROUP AND EXPECTED RESULTS OF OPERATIONS

The Consolidated Group will continue to maintain and develop facilities for servicing the financial and related requirements of its members with a sufficient margin of profit to provide for an adequate and appropriate level of reserves.

DIRECTORS' BENEFITS

Since the end of the previous financial year no director of the Society has received or become entitled to receive a benefit (other than a remuneration benefit included in note 8 to the consolidated financial statements) by reason of a contract made by the Society or an entity controlled by the Society or by a body corporate that was related to the Society, with a director or with a firm of which the director is a member or with an entity in which the director has a substantial financial interest.

OTHER MATTERS

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an officer or an auditor of the Consolidated Group.

No person has applied for Leave of Court to bring proceedings on behalf of the Consolidated Group or to intervene in any proceedings to which the Consolidated Group is a party for the purpose of taking responsibility on behalf of the Consolidated Group for all or any part of those proceedings.

The party was not subject to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C, the auditors of the Consolidated Group, Grant Thornton (WA) Partnership, has provided a signed independence declaration to the directors in relation to the year ended 30 June 2011. This declaration has been attached to the independent audit report to the members of the Consolidated Group.

This report is made in accordance with a resolution of the Board of Directors.

Signed at Nedlands this 17th day of October 2011.



William J Ford
Chairman



Frank J Lincoln
Deputy Chair

Statements of Comprehensive Income

	Notes	2011		2010	
		Consolidated Group	Society	Consolidated Group	Society
		\$	\$	\$	\$
Interest revenue	2	9,896,547	9,858,889	7,710,271	7,686,281
Interest expense	2	(5,947,409)	(5,947,409)	(4,200,587)	(4,200,587)
Net interest revenue	3	3,949,138	3,911,480	3,509,684	3,485,694
Other revenue	2	1,448,482	1,102,310	1,483,892	588,121
Bad and doubtful debt expense	2	(87,779)	(87,779)	(148,478)	(148,478)
Employee benefits expense	2	(1,958,294)	(1,424,989)	(1,779,659)	(1,282,716)
Occupancy expenses	2	(182,306)	(171,877)	(168,113)	(159,683)
Depreciation and amortisation expenses	2	(166,333)	(159,661)	(174,529)	(168,001)
Other expenses	2	(1,673,151)	(1,598,792)	(1,605,147)	(1,523,979)
Profit before income tax	2	1,329,757	1,570,692	1,117,650	790,958
Income tax expense	4	(362,452)	(284,210)	(314,101)	(216,093)
Profit attributable to members of the Society		967,305	1,286,482	803,549	574,865
Other comprehensive income:					
Transfer to general reserve for credit losses		21,111	21,111	12,407	12,407
Net Loss on revaluation of land & buildings		-	-	-	-
Total other comprehensive income		21,111	21,111	12,407	12,407
Total comprehensive income		988,416	1,307,593	815,956	587,272

The accompanying notes form part of these financial statements

Statements of Financial Position

	Notes	2011		2010	
		Consolidated Group	Society	Consolidated Group	Society
		\$	\$	\$	\$
ASSETS					
Cash and cash equivalents	5(a)	981,347	980,852	3,810,828	3,810,333
Due from other financial institutions	5(b)	34,000,000	34,000,000	36,000,000	36,000,000
Trade & other receivables	5(c)	2,623,400	2,106,906	3,308,102	2,265,931
Investment securities	5(d)	20,808,118	20,808,118	2,490,966	2,490,966
Loans and advances	5(e)	100,767,423	100,767,423	96,663,596	96,663,596
Other investments	5(f)	355,678	455,678	355,678	455,678
Property, plant and equipment	5(g)	3,331,751	3,324,623	3,370,588	3,357,338
Intangible assets	5(h)	448,017	448,017	540,819	540,819
Deferred tax assets	5(i)	227,222	224,967	270,265	268,420
TOTAL ASSETS		163,542,956	163,116,584	146,810,842	145,853,081
LIABILITIES					
Deposits and borrowings	6(a)	144,824,013	145,293,404	129,731,444	130,214,049
Trade & other payables	6(b)	4,029,061	3,584,921	3,285,254	2,622,688
Financial liabilities	6(c)	168,179	168,179	290,955	290,955
Tax liabilities	6(d)	373,704	359,273	365,463	344,032
Employee benefits	6(e)	345,208	345,208	323,351	323,351
TOTAL LIABILITIES		149,740,165	149,750,985	133,996,467	133,795,075
NET ASSETS		13,802,791	13,365,599	12,814,375	12,058,006
EQUITY					
Reserves	7	13,365,599	13,365,599	12,058,006	12,058,006
Retained profits		437,192	-	756,369	-
TOTAL EQUITY		13,802,791	13,365,599	12,814,375	12,058,006

The accompanying notes form part of these financial statements

Statements of Changes in Equity

	Reserves \$	Retained Earnings \$	Total \$
Consolidated Group			
Balance at 1 July 2009	11,470,734	527,685	11,998,419
Profit attributable to members of the company:	-	803,549	803,549
Total recognised income and expense for the year		803,549	803,549
Transfers to and from reserves:			
- general reserve	574,865	(574,865)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	12,407	-	12,407
Balance at 30 June 2010	12,058,006	756,369	12,814,375
Profit attributable to members of the company:	-	967,305	967,305
Total recognised income and expense for the year		967,305	967,305
Transfers to and from reserves:			
- dividends paid	-	-	-
- general reserve	1,286,482	(1,286,482)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	21,111	-	21,111
Balance at 30 June 2011	13,365,599	437,192	13,802,791
Society			
Balance at 1 July 2009	11,470,734	-	11,470,734
Profit attributable to members of the company:	-	574,865	574,865
Total recognised income and expense for the year		574,865	574,865
Transfers to and from reserves:			
- general reserve	574,865	(574,865)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	12,407	-	12,407
Balance at 30 June 2010	12,058,006	-	12,058,006
Profit attributable to members of the company:	-	1,286,482	1,286,482
Total recognised income and expense for the year		1,286,482	1,286,482
Transfers to and from reserves:			
- general reserve	1,286,482	(1,286,482)	-
- asset revaluation reserve	-	-	-
- general reserve for credit losses	21,111	-	21,111
Balance at 30 June 2011	13,365,599	-	13,365,599

The accompanying notes form part of these financial statements

Statements of Cash Flows

	2011		2010	
	Consolidated Group	Society	Consolidated Group	Society
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest and bill discounts received	10,107,507	10,069,852	7,876,156	7,852,166
Interest and other costs of finance paid	(6,109,423)	(6,109,423)	(4,526,865)	(4,526,865)
Fees and commissions received	13,428,532	1,101,686	12,632,647	587,529
Cash paid to suppliers and employees	(14,602,938)	(2,311,425)	(14,675,541)	(2,730,123)
Income tax paid	(311,168)	(225,516)	(210,079)	(136,963)
Net cash (used in)/provided by operating activities	2,512,510	2,525,174	1,096,318	1,045,744
	Note 15 (3)			
CASH FLOWS FROM INVESTING ACTIVITIES				
Net receipts from (payments for) short term investments	(16,317,152)	(16,317,152)	3,672,366	3,672,366
Member loans granted	(22,286,648)	(22,286,648)	(24,685,436)	(24,685,436)
Member loans repaid	18,203,933	18,203,933	19,036,445	19,036,445
Payments for property, plant and equipment	(32,164)	(31,614)	(61,859)	(58,935)
Proceeds from sale of plant and equipment	-	-	-	-
Payments for intangible assets	(2,529)	(2,529)	(6,765)	(6,765)
Net cash used in investing activities	(20,434,560)	(20,434,010)	(2,045,249)	(2,042,325)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in members deposits	15,093,631	15,080,417	1,672,866	1,720,516
Net increase/(decrease) in withdrawable shares	(1,062)	(1,062)	(756)	(756)
Net increase in amounts due to associates	-	-	-	-
Dividends paid	-	-	-	-
Net cash provided by financing activities	15,092,569	15,079,355	1,672,110	1,719,760
NET INCREASE/(DECREASE) IN CASH HELD				
	(2,829,481)	(2,829,481)	723,179	723,179
Cash at beginning of year	3,810,828	3,810,333	3,087,649	3,087,154
CASH AT END OF YEAR	981,347	980,852	3,810,828	3,810,333
	Note 15 (1)			

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements which have been prepared in accordance with Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements were authorised for issue on 17th October 2011 by the Directors of the Company.

The financial statements are for The University Credit Society Limited and its controlled entity, Tertiary Travel Service Pty Ltd. The University Credit Society Limited is a financial institution, incorporated and domiciled in Australia.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Consolidated Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

The University Credit Society Limited as an individual entity and The University Credit Society Limited and subsidiary as a Consolidated Group have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS).

(b) Principles of Consolidation

A controlled entity is an entity controlled by The University Credit Society Limited. Control exists where The University Credit Society Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with The University Credit Society Limited to achieve the objectives of The University Credit Society Limited.

All intercompany balances and transactions between entities in the Consolidated Group, including any unrealised profit or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short term liquid investments with original maturities of 90 days or less.

(d) Income Tax

Income tax expense shown in the statement of comprehensive income is based on the operating profit before income tax, adjusted for any non tax deductible, or non assessable items between profit and taxable income. Deferred tax assets and liabilities are recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax is accounted for in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

NOTE 1 (d) cont.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income, except where it relates to items that may be directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Loans and Advances

Loans and advances are recognised at recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the statement of comprehensive income. The provision of impairment is calculated in accordance with a formula prescribed under the Prudential Standards and is recognised in the general reserve for credit losses.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Freehold land and buildings are measured on their fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the Consolidated Group to have an independent valuation at least every three years, with annual appraisals being made by the directors. Increases in the carrying amount on revaluation of land and buildings are credited to a revaluation reserve in equity. Any decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity. All other decreases are charged to the statement of comprehensive income.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

NOTE 1 (f) cont.**Depreciation**

All fixed assets including buildings, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the Consolidated Group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Freehold Buildings	2.5%
Plant and Equipment	5% – 33%

(g) Intangible Assets**Software**

Under IFRS, items of computer software which are not integral to the computer hardware owned by the Society are classified as intangible assets, not as part of plant and equipment. Computer software held as intangible assets is amortised over 3 years.

(h) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rate applicable to financial assets.

All revenue received arises from the operating activities of the Consolidated Group.

Fees and commissions are recognised upon the rendering of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(i) Employee Benefits

Liabilities for wages and salaries, annual leave and long service leave are recognised and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' service up to that date.

(j) Investments

Interests in listed and unlisted securities, other than controlled entities in the consolidated accounts, are brought to account at cost and dividend income is recognised in the statement of comprehensive income.

(k) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Consolidated Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statements of financial position are shown as inclusive of GST.

(m) Impairment of Assets

At each reporting date, the Consolidated Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statements of comprehensive income.

NOTE 1 cont.

(n) **Interest Rate Swaps**

The Society uses derivative financial instruments in the form of interest rate swaps to hedge its risk associated with interest rate fluctuations. These financial instruments are stated at fair value.

For the purposes of hedge accounting, hedges are either classified as fair value hedges when they hedge the exposure changes in the fair value of recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability.

In relation to fair value hedges (interest rate swaps) any gain or loss from remeasuring to hedging is recognised immediately in the statements of comprehensive income.

Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the statements of comprehensive income.

(o) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 1 cont.**(p) Financial Instruments**

The Consolidated Group's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at reporting date, are as follows:

FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
FINANCIAL ASSETS			
Cash and cash equivalents	5	All investments are recognised at the lower of cost or net realisable value where the difference is material.	All liquid assets in excess of balances held as branch floats are invested on the 11am money market.
Investments	5	All investments are recognised at the lower of cost or net realisable value where the difference is material.	Invested funds are in marketable parcels with maturities spread evenly over usually less than 90 days.
Receivables	5	Amounts receivable are carried at face value unless there is doubt as to collectability	Receivables are due and payable at the time of raising the debt or in certain circumstances due and payable within 30 days.
Loans and advances	5	The loan contract specifies the manner in which interest is applied. This is usually either on the daily balance or on the opening balance. In each instance interest is charged in arrears.	Housing, investment, overdraft, line of credit and commercial loans are secured against real estate or in a limited number of cases term deposits. Personal loans may be advanced unsecured however security is normally in the form of goods mortgage. Loans may be advanced from 12 months to 30 years.

NOTE 1 (p) cont.

FINANCIAL INSTRUMENTS	BALANCE SHEET NOTES	ACCOUNTING POLICIES	TERMS AND CONDITIONS
FINANCIAL LIABILITIES			
Payables to other financial institutions	6	The overdraft is brought to account at face value. Interest is charged as an expense as it accrues.	The overdraft is secured by a fixed and floating charge over the Credit Society's assets.
Payables and other liabilities	6	Payments and accruals are recognised when incurred whether or not billed.	Creditors are normally paid within the specified trading terms.
Deposits	6	Deposits are recorded at the principal amount plus accrued interest.	Member deposits accrue interest at rates and for terms according to the deposit type and balance. Interest is accrued on the daily balance.
UNRECOGNISED FINANCIAL INSTRUMENTS			
Interest rate swaps		The Society enters into interest rate swap agreements that are used to convert its fixed rate loans and advances to variable interest rates. It is the Society's policy to reflect the mark to market value of the interest rate swaps in the statement of financial position, however the notional principal of the swaps is not recognised as an asset or a liability. Net receipts and payments are recognised as an adjustment to interest expense.	At balance date, the Society has interest rate swap agreements with a notional amount of \$13.15m, on which it pays 5.18% to 7.55% interest and receives Bank Bill Swap rate calculated on the notional amount. The swaps are used to protect the Society from exposure to increasing interest rates. The swaps in place cover a proportion of the fixed rate loans at reporting date. The swaps expire between September 2011 and April 2015.

NOTE 2: PROFIT BEFORE INCOME TAX EXPENSE

	2011		2010	
	Consolidated Group	Society	Consolidated Group	Society
	\$	\$	\$	\$
Interest on commercial loans:				
Loans for residential investment properties	1,621,544	1,621,544	1,398,520	1,398,520
Other commercial loans	270,212	270,212	340,659	340,659
	1,891,756	1,891,756	1,739,179	1,739,179
Interest on loans other than commercial loans	4,969,136	4,969,136	3,857,416	3,857,416
Interest on investments	3,035,655	2,997,997	2,113,676	2,089,686
Interest revenue	9,896,547	9,858,889	7,710,271	7,686,281
Interest on members' deposits	5,943,288	5,943,288	4,194,363	4,194,363
Interest on borrowings	4,121	4,121	6,224	6,224
Interest expense	5,947,409	5,947,409	4,200,587	4,200,587
Loan establishment fees	26,926	26,926	22,281	22,281
Other fee income	933,756	290,856	980,106	319,095
Income from property	-	38,400	-	38,400
Insurance commissions	84,591	84,591	85,802	85,802
Other commissions	325,445	83,773	353,560	80,400
Dividends	77,140	577,140	41,551	41,551
Bad debts recovered	624	624	592	592
Non interest revenue	1,448,482	1,102,310	1,483,892	588,121
Bad and doubtful debts	87,779	87,779	148,478	148,478
Bad and doubtful debts expense	87,779	87,779	148,478	148,478
Depreciation and amortisation - Property, plant and equipment	166,333	159,661	174,529	168,001
Transfers to/(from) provisions - Holiday pay	3,667	3,667	(37,541)	(37,541)
Long service leave	33,656	33,656	(8,276)	(8,276)
Personnel costs	1,920,972	1,387,666	1,825,476	1,328,533
Supervision levy	6,712	6,712	6,833	6,833
Occupancy expenses	182,306	171,877	168,113	159,683
Other expenses	1,666,438	1,592,080	1,598,314	1,517,146
Other expenses	3,980,084	3,355,319	3,727,448	3,134,379
PROFIT BEFORE INCOME TAX EXPENSE	1,329,757	1,570,692	1,117,650	790,958

NOTE 3: INTEREST REVENUE AND EXPENSE

The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate.

	Consolidated Group Average Balance \$	Consolidated Group Interest \$	Consolidated Group Average Interest Rate %
INTEREST REVENUE 2010			
Investment securities & deposits	45,098,268	2,113,676	4.69%
Loans and advances	92,888,527	5,596,595	6.03%
	137,986,795	7,710,271	5.59%
INTEREST EXPENSE 2010			
Customer deposits	128,827,373	4,194,363	3.26%
Short-term borrowings	84,284	6,224	7.38%
	128,911,657	4,200,587	3.26%
<i>Net Interest Income 2010</i>	9,075,138	3,509,684	2.33%
INTEREST REVENUE 2011			
Investment securities & deposits	53,244,230	3,035,655	5.70%
Loans and advances	98,907,345	6,860,892	6.94%
	152,151,575	9,896,547	6.50%
INTEREST EXPENSE 2011			
Customer deposits	141,477,376	5,943,288	4.20%
Short-term borrowings	49,037	4,121	8.40%
	141,526,413	5,947,409	4.20%
<i>Net Interest Income 2011</i>	10,625,162	3,949,138	2.30%

NOTE 4: INCOME TAX

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(a) The prima facie tax on profit before income tax is reconciled to income tax provided in the financial report as follows:				
Prima facie tax payable on operating profit at 30% (2010: 30%):				
Consolidated Group	398,927	-	335,295	-
Society	-	471,208	-	237,287
Add / (Less) effect of non assessable amounts	(36,475)	(186,998)	(21,194)	(21,194)
Income Tax attributable to profit before income tax	362,452	284,210	314,101	216,093
(b) The components of income tax expense comprise:				
Current Tax	319,744	241,092	303,136	205,128
Deferred Tax	42,708	43,118	10,965	10,965
	362,452	284,210	314,101	216,093
(c) Current and deferred tax recognised in equity:				
Current Tax	-	-	-	-
Deferred Tax - Net gain/(loss) on revaluation of land and building	-	-	-	-
	-	-	-	-
(d) Deferred tax assets				
Deferred tax assets have been recognised in the statements of financial position for the following items:				
Deductible temporary differences	226,812	224,967	270,265	268,420
Unused tax losses	-	-	-	-
	226,812	224,967	270,265	268,420
(e) Deferred tax liabilities relating to temporary differences				
	141,361	141,361	141,361	141,361

NOTE 5: ASSETS

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(a) Cash & cash equivalents				
Cash floats	215,521	215,026	218,220	217,725
Cash at bank	765,826	765,826	3,592,608	3,592,608
	981,347	980,852	3,810,828	3,810,333
(b) Due from other financial institutions				
Deposits with SSPs	14,000,000	14,000,000	9,000,000	9,000,000
Bank deposits	20,000,000	20,000,000	27,000,000	27,000,000
	34,000,000	34,000,000	36,000,000	36,000,000
Maturity analysis:				
At call	-	-	-	-
Not longer than 3 months	23,000,000	23,000,000	21,000,000	21,000,000
Not longer than 6 months	11,000,000	11,000,000	15,000,000	15,000,000
	34,000,000	34,000,000	36,000,000	36,000,000
(c) Trade & other receivables				
Trade debtors	2,004,946	1,493,904	2,643,017	1,603,335
Accrued income	542,305	542,305	591,255	591,255
Other debtors and prepayments	76,149	70,697	73,830	71,341
	2,623,400	2,106,906	3,308,102	2,265,931
(d) Investment securities				
Bank accepted bills of exchange	20,808,118	20,808,118	2,490,966	2,490,966
	20,808,118	20,808,118	2,490,966	2,490,966
Maturity analysis:				
Not longer than 3 months	20,808,118	20,808,118	2,490,966	2,490,966
	20,808,118	20,808,118	2,490,966	2,490,966
(e) Loans and advances				
Loans (Note 12)	100,772,206	100,772,206	96,848,447	96,848,447
Less provision for doubtful debts (Note 11)	(4,783)	(4,783)	(184,851)	(184,851)
	100,767,423	100,767,423	96,663,596	96,663,596
Maturity analysis:				
Not longer than 3 months	84,065,033	84,065,033	80,118,721	80,118,721
Longer than 3 and not longer than 12 months	4,547,787	4,547,787	6,068,616	6,068,616
Longer than 1 year and not longer than 5 years	12,159,386	12,159,386	10,661,110	10,661,110
Longer than 5 years	-	-	-	-
Less provision for doubtful debts (Note 11)	(4,783)	(4,783)	(184,851)	(184,851)
	100,767,423	100,767,423	96,663,596	96,663,596
(f) Other investments				
Shares				
- in controlled entities (Note 10)	-	100,000	-	100,000
- other unlisted companies	355,678	355,678	355,678	355,678
	355,678	455,678	355,678	455,678

NOTE 5: ASSETS (continued)

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(g) Property, Plant and Equipment				
Freehold Land				
At independent valuation 2009	2,200,000	2,200,000	2,200,000	2,200,000
Buildings				
At independent valuation 2009	1,150,000	1,150,000	1,150,000	1,150,000
At cost	4,408	4,408	4,408	4,408
	3,354,408	3,354,408	3,354,408	3,354,408
Less accumulated depreciation	(86,250)	(86,250)	(45,921)	(45,921)
Total Land and Buildings	3,268,158	3,268,158	3,308,487	3,308,487
Plant and Equipment				
At cost	802,372	748,584	775,287	722,048
Less accumulated depreciation	(738,779)	(692,119)	(713,186)	(673,197)
Total Plant and Equipment	63,593	56,465	62,101	48,851
Total Property, Plant and Equipment	3,331,751	3,324,623	3,370,588	3,357,338

Land and buildings are revalued no less frequently than three years.

The basis of valuation of land and buildings is fair market value based on existing use.

The 2009 valuation was carried out by Mr T Gorman, AAPI Certified Practising Valuer, of Glendinning & Associates Pty Ltd.

Movements in Carrying Amounts

Movement in the Society's carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Freehold Land \$	Buildings \$	Plant and Equipment \$	Total \$
Balance at the beginning of year	2,200,000	1,108,487	48,851	3,357,338
Additions	-	-	31,615	31,615
Disposals	-	-	-	-
Depreciation expense	-	(40,329)	(24,001)	(64,330)
Revaluation	-	-	-	-
Carrying amount at the end of year	2,200,000	1,068,158	56,465	3,324,623

NOTE 5: ASSETS (continued)

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(h) Intangible assets				
Computer software				
At cost	720,468	720,468	740,447	740,447
Less accumulated amortisation	(272,451)	(272,451)	(199,628)	(199,628)
	448,017	448,017	540,819	540,819
(i) Deferred tax assets				
Deferred tax asset	227,222	224,967	270,265	268,420
	227,222	224,967	270,265	268,420

NOTE 6: LIABILITIES

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(a) Deposits and borrowings				
Members' deposits	144,809,361	145,278,752	129,715,730	130,198,335
Withdrawable shares - non-interest bearing	4,652	14,652	15,714	15,714
	144,824,013	145,293,404	129,731,444	130,214,049
Maturity analysis:				
At call	38,901,602	39,370,993	39,081,213	39,563,818
Not longer than 3 months	78,544,401	78,544,401	70,965,653	70,965,653
Longer than 3 and not longer than 6 months	18,294,407	18,294,407	13,146,269	13,146,269
Longer than 6 and not longer than 12 months	7,849,109	7,849,109	5,405,906	5,405,906
Longer than 1 year and not longer than 5 years	1,234,494	1,234,494	1,132,403	1,132,403
	144,824,013	145,293,404	129,731,444	130,214,049
(b) Trade & other payables				
Trade creditors and accruals	4,029,061	3,584,921	3,285,254	2,622,688
Due to controlled Group	-	-	-	-
	4,029,061	3,584,921	3,285,254	2,622,688
(c) Financial liabilities				
Interest rate swaps (Mark to market)	168,179	168,179	290,955	290,955
	168,179	168,179	290,955	290,955

NOTE 6: LIABILITIES (continued)

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(d) Tax liabilities				
Income tax	140,805	126,374	119,211	97,780
Deferred tax liability	232,899	232,899	246,252	246,252
	373,704	359,273	365,463	344,032
(e) Employee benefits				
Accrued salaries and superannuation	4,876	4,876	-	-
Provision for employee benefits:				
Annual leave	104,627	104,627	89,981	89,981
Long service leave	235,705	235,705	233,370	233,370
	345,208	345,208	323,351	323,351
(a) Number of employees at year end	31	22	29	21

NOTE 7: RESERVES

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
General reserve				
Balance at beginning of year	9,244,272	9,244,272	8,669,407	8,669,407
Transfer to reserve for year	1,286,482	1,286,482	574,865	574,865
Balance at end of year	10,530,754	10,530,754	9,244,272	9,244,272
Asset revaluation reserve				
Balance at beginning of year	2,494,502	2,494,502	2,494,502	2,494,502
Add: Revaluation increment on freehold land and buildings	-	-	-	-
Balance at end of year	2,494,502	2,494,502	2,494,502	2,494,502
General reserve for credit losses				
Balance at beginning of year	319,232	319,232	306,825	306,825
Transfer to/(from) reserve for year	21,111	21,111	12,407	12,407
Balance at end of year	340,343	340,343	319,232	319,232
	13,365,599	13,365,599	12,058,006	12,058,006

NOTE 8: KEY MANAGEMENT PERSONNEL

The directors of the Society at any time during the financial year were -

W J Ford	P J Grant	M L Griffith	A M Hall
M L T Johns	B A Handley	F J Lincoln	I D Watson
V R Wilmot			

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the society, directly or indirectly, including any Director (whether executive or otherwise) of that Group. Control is the power to govern the financial and operating policies of a Group so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors of the parent and subsidiary entities and the members of the executive management team responsible for the day-to-day financial and operational management of the Society. The executive management team is comprised of the Chief Executive Officer, Executive Manager Finance & Administration and Executive Manager Lending & Collections.

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
Total remuneration received by <i>Key Management Persons</i> of the Society -				
Paid by the Society	450,777	450,777	435,406	435,406
Paid by subsidiaries	-	-	-	-
	450,777	450,777	435,406	435,406

Aggregate transactions of the directors, executives and related parties with the Society are as follows:

Interest on loans for the year	24,416	24,416	19,884	19,884
Interest paid on deposits for the year	111,205	111,205	55,797	55,797
Deposits at year end	2,000,346	2,000,346	2,125,528	2,125,528

TRANSACTIONS WITH DIRECTORS, EXECUTIVES AND RELATED PARTIES

Loans are made and financial, travel and insurance services supplied to the directors, executives and related parties on the same terms and conditions as those applied to other members. No terms or conditions of any loan to related parties have been breached.

The aggregate amount due in respect of loans advanced by the Society at year end was:	348,233	348,233	161,022	161,022
Loans advanced during the year	120,185	120,185	1,393,274	1,393,274
Loan repayments received during the year	126,417	126,417	1,417,595	1,417,595

NOTE 9: COMMITMENTS FOR EXPENDITURE

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$

The Consolidated Group is committed for the following future expenditure which has not been provided for in the accounts:

- Not later than one year	393,397	391,677	376,334	374,614
- 12 months to 5 years	871,715	867,558	1,170,640	1,164,763
- Longer than 5 years	12,797	12,797	-	-

1,277,909	1,272,032	1,546,974	1,539,377
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Loans approved but not funded as at 30 June	17,915,732	17,915,732	20,057,890	20,057,890
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Commitments for expenditure relate to ongoing licence and software maintenance payments in respect to the Phoenix core banking system, building maintenance costs and lease payments in respect to branch premises, printers, photocopiers, faxes and postage franking machine.

NOTE 10: INVESTMENTS IN CONTROLLED ENTITIES

The Society beneficially owns shares in the following wholly owned controlled entities, which are incorporated in Australia:

	Cost of Parent's Investment 2011	Cost of Parent's Investment 2010
Tertiary Travel Service Pty Ltd 100,000 ordinary shares	100,000	100,000

NOTE 11: PROVISION FOR DOUBTFUL DEBTS

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$

(a) Specific provision for doubtful debts -				
Balance at beginning of year	184,851	184,851	61,483	61,483
Add/(deduct) provision for year	101,709	101,709	133,199	133,199

286,560	286,560	194,682	194,682
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Less bad debts written off	(281,777)	(281,777)	(9,831)	(9,831)
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Balance at end of year	4,783	4,783	184,851	184,851
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NOTE 11: PROVISION FOR DOUBTFUL DEBTS (continued)

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
(b) Minimum provision required under the prudential standards	4,783	4,783	184,851	184,851
(c) Aggregate amount of loans on which interest is no longer being accrued	2,034	2,034	959,779	959,779
(d) Aggregate amount of loans in arrears by more than 90 days where interest is being accrued	127	127	9,413	9,413
(e) Non-accrual loans included in provision for doubtful debts	2,034	2,034	969,192	969,192
(f) Interest revenue on non-accrual loans	46	46	2,031	2,031
(g) Interest foregone on non-accrual loans	22	22	24,019	24,019
(h) Net fair value of assets acquired through enforcement of security.	-	-	757,000	757,000

NOTE 12: LOANS

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
Loans by purpose				
Commercial loans -				
Loans for residential investment properties	22,897,728	22,897,728	22,921,481	22,921,481
Other commercial loans	3,509,987	3,509,987	3,562,455	3,562,455
Total commercial loans	26,407,715	26,407,715	26,483,936	26,483,936
Residential loans	71,756,332	71,756,332	67,390,357	67,390,357
Personal loans	2,608,159	2,608,159	2,974,154	2,974,154
	100,772,206	100,772,206	96,848,447	96,848,447
Less provision for doubtful debts	(4,783)	(4,783)	(184,851)	(184,851)
	100,767,423	100,767,423	96,663,596	96,663,596
Loans by security				
Secured by mortgage	98,399,806	98,399,806	93,570,926	93,570,926
Secured other	1,662,030	1,662,030	2,598,744	2,598,744
Unsecured	710,370	710,370	678,777	678,777
	100,772,206	100,772,206	96,848,447	96,848,447
Less provision for doubtful debts	(4,783)	(4,783)	(184,851)	(184,851)
	100,767,423	100,767,423	96,663,596	96,663,596

NOTE 13: FINANCIAL INSTRUMENTS**(a) Financial management objectives**

The Consolidated Group as part of its daily operations is exposed to a range of risks. The management of these risk exposures involves a number of activities including the identification of particular risks, quantifying the risk exposure, implementing procedures to control and mitigate the risks, and risk reporting.

The Consolidated Group has in place an enterprise wide risk management process. The process is managed through its Board Audit & Risk Management Committee, and is supported by a documented risk management plan, risk policies and strategies, internal controls and procedures, and a Business Risk and Continuity Plan.

The risk management process involves establishing the context and the identification, analysis, evaluation, treatment, communication and ongoing monitoring of risks.

Details of significant accounting policies and methods adopted, including the criteria of recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The Consolidated Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes. The use of financial derivatives is limited to interest rate swaps and is governed by the Consolidated Group's policies approved by the Board. Compliance with policies is reviewed by the risk management structure in place on a continuous basis, as outlined above.

(b) Liquidity risk management

Liquidity risk is the risk that a Financial Institution may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that the Consolidated Group maintains adequate cash reserves to meet the member withdrawal demands and other creditor commitments when requested.

The Consolidated Group manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows
- Monitoring the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves
- Monitoring the prudential liquidity ratio

The Credit Society has set out in (f) of this Note the maturity profile of the financial liabilities, based on the contractual repayment terms.

The Credit Society is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Society policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests.

The ratio is checked monthly. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits (either from ADIs or retail depositors), or borrowing facilities as at the balance date. The Credit Society has a longstanding arrangement under an approved industry support contract with Credit Society Financial Support Scheme Limited (CUFSS) which can access industry funds to provide support to the Credit Society should it be necessary at short notice.

NOTE 13: FINANCIAL INSTRUMENTS (continued)

(c) Credit risk management

The credit risk of a financial institution is the risk that customers (members), financial institutions and other counterparties will be unable to meet their obligations to the institution which may result in financial losses.

Credit risk arises principally from the Credit Society's loan book, investment assets and derivative contracts.

The credit risk on financial assets of the Consolidated Group which have been recognised in the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The Consolidated Group does not have any material credit risk exposure to any single debtors under financial instruments entered into by the Consolidated Group.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 12 describes the nature of the security held against the loans as at the balance date.

All loans and facilities are within Australia.

The method of managing credit risk is by ways of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayments of loans thereafter on a weekly basis.

The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayment).

(d) Capital management

The Board policy is to maintain a strong capital base so as to maintain member, creditor and market confidence and to sustain future development of the business. There were no changes on the Society's approach to capital management during the year.

(e) Capital adequacy

The management of the capital of a financial institution is a fundamental part of its risk management process as an essential element of capital is its availability to absorb future, unexpected and unidentified losses. As a mutual organisation, the Credit Society's primary source of capital is retained earnings. The Credit Society maintains an internal Capital Adequacy Assessment Process to provide assurance that its capital holdings are commensurate with its risk exposures, it identifies future capital needs in advance and has plans in place to respond to unexpected capital deficiencies.

(f) Market risk management

Market risk is the risk of exposure to changes to financial prices affecting the value of positions held by the Credit Society as part of its normal trading activities. As the Credit Society does not deal in foreign exchange contracts or commodities, market risk consists solely of interest rate risk.

The Credit Society is exposed to interest rate risk in the banking book arising from changes in market interest rates.

The policy of the Credit Society is to maintain a balanced "on book" hedging strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. However, acknowledging that member demand and competition in the different products may not always allow the Credit Society to achieve a balanced "on book" position, the Credit Society has a hedging policy in place to ensure appropriate use of interest rate swaps.

Notes to and forming part of the Financial Statements

for the year ending 30 June 2011

NOTE 13 (f) cont.

The Credit Society uses a number of techniques to measure and monitor the interest rate risk, these including Gap Analysis and 200 Basis Point Sensitivity as a percentage of Capital.

The Consolidated Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of the changes in market interest rates and the effective weighted average interest rates of financial assets and financial liabilities, both recognised and unrecognised, at the reporting date, are as follows:

Financial Instruments	2011 Floating interest rate \$	2011 Non interest bearing \$	2011 Fixed Interest 1 year or less \$	2011 Fixed Interest 1 year to 5 years \$	2011 Total carrying amount as per balance sheet \$
(i) Financial Assets					
Cash & cash equivalents	765,826	215,521	-	-	981,347
Due from other financial institutions	34,000,000	-	-	-	34,000,000
Investment securities	20,808,118	-	-	-	20,808,118
Loans and advances	81,203,539	-	6,838,917	12,724,967	100,767,423
Unlisted shares and sub-ordinated deposits	-	355,678	-	-	355,678
Trade & other receivables	-	2,623,400	-	-	2,623,400
Interest rate swaps *	13,150,000	-	(4,400,000)	(8,750,000)	-
Total financial assets	149,927,483	3,194,599	2,438,917	3,974,967	159,535,966
Weighted average interest rate	6.294%	0.000%	6.547%	6.634%	
(ii) Financial Liabilities					
Member shares	-	14,652	-	-	14,652
Member deposits	38,886,951	-	104,687,917	1,234,493	144,809,361
Trade & other payables	-	4,029,061	-	-	4,029,061
Interest rate swaps	-	168,179	-	-	168,179
Total financial liabilities	38,886,951	4,211,892	104,687,917	1,234,493	149,021,253
Weighted average interest rate	0.248%	0.000%	5.628%	6.096%	
Net financial assets/(liabilities)	111,040,532	(1,017,293)	(102,249,000)	2,740,474	10,514,713

* Notional principal amounts

NOTE 13 (f) cont.

Financial Instruments	2010 Floating interest rate \$	2010 Non interest bearing \$	2010 Fixed Interest 1 year or less \$	2010 Fixed Interest 1 year to 5 years \$	2010 Total carrying amount as per balance sheet \$
(i) Financial Assets					
Cash & cash equivalents	3,592,608	218,220	-	-	3,810,828
Due from other financial institutions	36,000,000	-	-	-	36,000,000
Investment securities	2,490,966	-	-	-	2,490,966
Loans and advances	79,054,983	-	6,947,503	10,661,110	96,663,596
Unlisted shares and sub-ordinated deposits	-	355,678	-	-	355,678
Trade & other receivables	-	3,308,102	-	-	3,308,102
Interest rate swaps *	11,850,000	-	(2,800,000)	(9,050,000)	-
Total financial assets	132,988,557	3,882,000	4,147,503	1,611,110	142,629,170
Weighted average interest rate	6.352%	0.000%	6.554%	6.786%	
(ii) Financial Liabilities					
Overdraft and loan facility	-	-	-	-	-
Member shares	-	15,714	-	-	15,714
Member deposits	39,065,497	-	89,517,829	1,132,404	129,715,730
Trade & other payables	-	3,285,254	-	-	3,285,254
Interest rate swaps	-	290,955	-	-	290,955
Total financial liabilities	39,065,497	3,591,923	89,517,829	1,132,404	133,307,653
Weighted average interest rate	0.182%	0.000%	5.318%	5.909%	
Net financial assets/(liabilities)	93,923,060	290,077	(85,370,326)	478,706	9,321,517

* Notional principal amounts

(g) Interest rate swaps

Interest rate swap transactions are entered into by the Consolidated Group to exchange fixed interest payment obligations to protect long-term borrowings of over three years from the risk of increasing interest rates. The Consolidated Group has fixed interest rate debt and enters into swap contracts to receive interest at variable rates and to pay interest at fixed rates.

The notional principal amounts of the swap contracts approximates the Consolidated Group's borrowing facility. The settlement dates of the swap contracts correspond with interest payment dates of the borrowings. The swap contracts require settlement of the net interest receivable or payable and are brought to account as an adjustment to borrowing costs.

NOTE 13 (g) cont.

At reporting date, the details of interest rate swap contracts are:

	Effective Average Interest Rate Payable		Notional Principal	
	2011 %	2010 %	2011 \$	2010 \$
Settlement:				
Less than 1 year	6.34%	6.33%	4,400,000	2,800,000
1 to 2 years	6.86%	6.34%	2,400,000	4,400,000
2 to 5 years	5.46%	6.27%	6,350,000	4,650,000
			13,150,000	11,850,000

(h) Net fair values

The net fair value of the financial assets and liabilities at 30 June 2011 equate to their carrying value as disclosed in the accounts, other than interest rate swap agreements which had a net fair value of \$(168,179) (2010: \$(290,956)).

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Cash & Cash Equivalents:	Net fair value equals the carrying amount as these funds are either on hand or invested on the 11am short term money market.
Investments:	Net fair value equals the carrying amount. The terms of these investments allow immediate and relative cost free recoupment. Other investments will also equate to carrying value in an orderly market.
Trade & Other Receivables:	Debtors balances are maintained in accordance with terms of trade, collectability is not in doubt and consequently net fair value equals book value.
Loans and Advances:	Other than impaired loans the loans and advances are at fair value. As such the carrying value will equate to fair value. Impaired loans have been deducted from the gross book value.
Overdraft:	Due to the short term to maturity carrying value equates to fair value.
Deposits:	Deposits are at market rates and as such the carrying amount equates to the fair value.
Trade & Other Payables:	Trade and other payables are accounted for according to trade terms and conditions. As such the carrying amount equates to the fair value.
Share Capital:	The carrying amount equates to the fair value.
Interest Rate Swap Agreements:	The fair values of interest rate swap contracts is determined as the difference in present value of the future interest cash flows.

NOTE 13: FINANCIAL INSTRUMENTS (continued)**(i) Reconciliation of Net Financial Assets to Net Assets**

	Notes	Consolidated Group 2011 \$	Consolidated Group 2010 \$
Net financial assets as above		10,514,713	9,321,517
Non-financial assets and liabilities:			
Property, plant and equipment	5(g)	3,331,751	3,370,588
Intangible assets	5(h)	448,017	540,819
Deferred tax assets	5(j)	227,222	270,265
Provisions	6(d)/6(e)	(718,912)	(688,814)
Net assets as per statements of financial position		13,802,791	12,814,375

(j) Sensitivity Analysis

Interest Rate Risk:

The Group has performed a sensitivity relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

Interest Rate Sensitivity Analysis:

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
Change in profit				
Increase in interest rate by 2%	213,037	213,037	168,854	168,854
Decrease in interest rate by 2%	(213,037)	(213,037)	(168,854)	(168,854)
Change in equity				
Increase in interest rate by 2%	213,037	213,037	168,854	168,854
Decrease in interest rate by 2%	(213,037)	(213,037)	(168,854)	(168,854)

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

No sensitivity analysis has been performed on foreign exchange risk, as the entity is not exposed to foreign currency fluctuations.

NOTE 14: CONCENTRATION OF RISK

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$

Loans to members or associated members which exceed ten per cent of shareholders' equity are as follows:

Number of loans	3	3	4	4
Aggregate value	4,848,233	4,848,233	6,312,767	6,312,767

There are no loans or deposits reported as liabilities which amount individually to ten per cent or more of total liabilities.

NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS**1. Reconciliation of cash**

For the purposes of the statements of cash flows, cash includes cash on hand and 'at call' deposits with other financial institutions, less bank overdraft. Cash at the end of the year as shown in the statements of cash flows is reconciled to the related items in the financial statements as follows:

	2011		2010	
Cash and current accounts	981,347	980,852	3,810,828	3,810,333
Deposits with banks	-	-	-	-
Bank overdraft	-	-	-	-
	981,347	980,852	3,810,828	3,810,333

2. Cash flows presented on a net basis

Cash flows from the following activities are presented on a net basis in the statements of cash flows:

- (a) member deposits in and withdrawals from share, savings and other deposit accounts; and
(b) sales and purchases of short term investments.

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$

3. Reconciliation of Operating Profit after Income**Tax to Net Cash Inflow from Operating Activities**

Operating profit after income tax	967,305	1,286,482	803,549	574,865
Bad debts expense	87,779	87,779	148,478	148,478
Depreciation and amortisation	166,333	159,661	174,529	168,001
Decrease/(increase) in interest receivable	48,950	48,950	(160,393)	(160,393)
(Decrease)/increase in income tax provisions	8,241	15,241	131,288	107,318
Decrease/(increase) in deferred tax asset	43,043	43,453	(27,266)	(28,188)
(Decrease)/increase in accrued expenses and provisions	533,250	751,675	1,484,664	1,170,390
Decrease/(increase) in debtors and prepayments	635,752	110,076	(1,383,714)	(859,910)
(Decrease)/increase in annual & long service leave provisions	21,857	21,857	(74,817)	(74,817)
	2,512,510	2,525,174	1,096,318	1,045,744

NOTE 16: REMUNERATION OF AUDITORS

	2011		2010	
	Consolidated Group \$	Society \$	Consolidated Group \$	Society \$
Total remuneration received by the auditors in connection with -				
auditing the accounts	42,370	39,000	36,400	33,000
any other services provided by a related practice of the auditors	4,643	3,543	4,950	3,850

NOTE 17: FINANCING ARRANGEMENTS

The Society has given an equitable charge over all of its assets in favour of Credit Union Financial Services (Australia) Limited, securing an overdraft facility of \$1,300,000 (2010: \$1,300,000), of which \$Nil was utilised at 30 June 2011.

NOTE 18: SEGMENTAL INFORMATION

The Group operates predominantly in the finance (Society) and travel industries and in one geographical area, being Australia.

NOTE 19: SERVICE AGREEMENTS

The Society has entered into agreements for the supply of services with the following :

- 1. Credit Union Services Corporation Australia Limited (CUSCAL)**
CUSCAL provides central banking and member chequing facilities, electronic funds transfer services, Redicards and Visa cards.
- 2. Data Action Pty Ltd**
This company is an integrated data processing centre and provides the mainframe hardware and the application software used by the Society and a number of other credit unions.
- 3. First Data Resources Australia Limited (FDRA)**
FDRA processes Redicard transactions through the ATM and EFTPOS network.

NOTE 20: CONTINGENT LIABILITIES

Credit Union Financial Support System (CUFSS)

The Society is a participant in the Credit Union Financial Support System (CUFSS). CUFSS is a voluntary scheme in which all credit unions that are affiliated with Credit Union Services (Australia) Limited (CUSCAL) have agreed to participate. CUFSS is a company limited by guarantee, with each credit union's guarantee being \$100. As a member of CUFSS, the Society:

- May be required to advance funds of up to 3% (excluding permanent loans) of total assets to another credit union requiring financial support.
- May be required to advance permanent loans of up to 0.2% of total assets per financial year to another credit union requiring financial support.
- Agrees, in conjunction with other members, to fund the operating costs of CUFSS.
- The balance of the debt at 30 June 2011 was \$Nil (2010: \$Nil)

NOTE 21: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Consolidated Group has decided not to early adopt. A discussion of those future requirements and their impact on the Consolidated Group is as follows:

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial assets, as well as recognition and derecognition requirements of financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - simplifying the requirements for embedded derivatives;
 - removing the tainting rules associated with held-to-maturity assets;
 - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
 - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on:
 - a. the objective of the entity's business model for managing the financial assets; and
 - b. the characteristics of the contractual cash flows.
 - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a "related party" to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

- AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

NOTE 21: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (continued)

- AASB 2010-04: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASBs annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements.
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity raising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

- AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

- AASB 2010-6: Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

- AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

NOTE 21: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (continued)

- AASB 2010-8: Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

NOTE 22: EVENTS SUBSEQUENT TO THE REPORTING DATE

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect:

- (i) the operations of the Consolidated Group; or
- (ii) the results of those operations; or
- (iii) the state of affairs of the Consolidated Group;
in financial years subsequent to 30 June 2011.

NOTE 23: COMPANY DETAILS

The registered office of the company is:

The University Credit Society Limited
80 Broadway
NEDLANDS WA 6009

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 36, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2011, and of the performance for the year ended on that date of the company and economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer.

This declaration is made in accordance with a resolution of the Board of Directors.

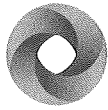
Signed at Nedlands this 17th day of October 2011.



Director



Director



Grant Thornton

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Independent Auditor's Report To the Members of The University Credit Society Limited

We have audited the accompanying financial report of The University Credit Society Limited (the "Society"), which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration of the consolidated entity comprising the Society and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Society are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's

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judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of The University Credit Society Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the Society's and consolidated group's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants



P W Warr
Partner

Perth, 17 October 2011



Grant Thornton

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**Auditor's Independence Declaration
To the Directors of The University Credit Society**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of The University Credit Society for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON (WA) PARTNERSHIP
Chartered Accountants

P W Warr
Partner

Perth, 17 October 2011

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